

Auditor Independence

The Board and management of Challenger Limited (Challenger) recognise the importance of strong corporate governance particularly including processes to ensure maintenance of the independence and objectivity of our external auditor, Ernst & Young.

This document sets out for the information of shareholders the regulatory expectations regarding auditor independence together with Challenger policies and procedures to actively manage the auditors independence status and Ernst & Young's internal processes by which they guard maintenance of their independence and objectivity.

Matters relating to auditor independence include actual independence issues, which are generally controlled by "black letter" rules and perceptions of independence which are generally covered by "principles based" guidelines and require the exercise of judgement.

Judgements of auditor independence can be formed based on uninformed perceptions or on informed perceptions. The Board of Challenger, on behalf of the shareholders, exercise their judgement of auditor independence based on informed perceptions and have developed the policies and procedures referred to above and included herein to achieve that goal.

Regulatory requirements

Rules and guidelines relating to auditor independence are found in the Corporations Act, particularly including the Clerp 9 amendments and in the Australian Auditing Standards, particularly Statement F1 relating to Auditor Independence.

In addition the Challenger Board considers guidance from other jurisdictions, such as the Securities Exchange Commission ("SEC"), when forming judgements. For example on the issue of auditors providing other services in addition to audit services the SEC and the Public Company Auditor Oversight Board ("PCAOB") in the United States have made it perfectly clear that provided other services are not specifically prohibited then the auditor may provide those services, provided they are not inconsistent with independence and even then only after first obtaining appropriate approvals.

Challenger's policy in relation to managing auditor independence

The Challenger Board Audit and Compliance Committee ("BACC") has established an audit committee charter as well as a charter of audit independence ("the Charters"). In these documents a process is set out whereby the BACC monitor both external audit quality and independence dealing with such matters as:

- Appointment and termination of the auditor;
- Auditor remuneration;
- Representations from the auditor regarding absence of financial interests;
- Maintenance of audit quality;
- Signing partner rotation; and
- Approval processes governing the provision of other services (in addition to audit services) by the auditor.

Where Challenger requires professional services to be carried out in order to manage risks and/or execute strategy, the auditor is one of the parties who may be considered for the provision of those services and the following service categories are taken into account in that consideration:

1. Financial and regulatory assurance where there is no viable alternate to Ernst & Young performing the role due to their knowledge of the financial information and, in some instances, the regulatory need for the external auditor to provide the assurance. All such work is pre-approved by the BACC.
2. Services that are in conflict with the external audit role and therefore prohibited by the Charters, or where there is a potential perceived conflict. Ernst & Young would not be engaged in such instances.
3. Services that are eligible to be performed by the external auditor. Ernst & Young may be engaged to provide such services where it is demonstrated that the service does not impede independence and where Ernst & Young demonstrate that they have the right team to provide the best service at the most competitive fee.

The BACC approves all non-audit services delivered by the auditor where the fee is over \$100,000 and certain other nominated services below that amount.

The BACC also reviews all fees paid to Ernst & Young on a quarterly basis. As a matter of practice Challenger has not nominated a mandatory requirement around the ratio of non-audit to audit fees, as we see that any such ratio is arbitrary and may not be in the best interest of Challenger.

The Charters approved by the BACC outline work that can be performed by the auditor and the work that cannot. The Charters outline an approval process that must occur for all non-audit services which involves the Challenger CEO, CFO or delegate, and depending on size and circumstances, the BACC.

Ernst & Young's procedures to ensure compliance with Independence

We have sought and obtained assurance from Ernst & Young that they have procedures in place to ensure that:

- Ernst & Young and its partners do not have any financial interest in Challenger
- The current service team members of Ernst & Young do not have any financial interest in Challenger
- The superannuation fund of the partners of Ernst & Young does not hold any direct financial interest in Challenger
- The staff superannuation fund of Ernst & Young does not hold any direct financial interest in Challenger
- There are no business interests between Challenger and Ernst & Young including no outsourcing arrangements for the management/administration of staff/partner superannuation funds
- No fee paid by Challenger to Ernst & Young has been paid on a contingent basis.

In addition on a bi-annual basis Ernst & Young confirm to us that:

- the total fees received by Ernst & Young from Challenger do not have a material impact on their operations or financial condition; and
- that they are not aware of any issue that would result in an impairment of their objectivity and auditor independence status.

Ernst & Young have assured us that they have implemented a range of initiatives to focus on independence and quality across the entire firm, including organizational roles focused on mandating the right independence behaviours and decisions, regular online training, risk management metrics and audits of compliance with policies.

In addition to these measures Ernst & Young have also told us that they have established a formal structure and protocols around independence and risk management. They have confirmed that their approach to independence is rigorous and extensive across all activities, and provides Challenger the confidence and assurance that our expectations are consistently met.